

Message Text

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ACTION ARA-10

INFO OCT-01 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

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R 181431Z JUN 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 5553

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 4896

E.O. 11652: GDS

TAGS: BDIS, EMIN, EGEN, PE

SUBJECT: MARCONA OFFICIAL EXPRESSES OPTIMISM RE BUY-OUT

REFS: (A) LIMA 4096, (B) LIMA 3945 (NOTAL).

(C) LIMA 3623 (NOTAL)

1. SUMMARY: AT OUR REQUEST, ENRIQUE EAST, MANAGER DIRECTOR OF MARCONA MINES IN LIMA, DISCUSSED CURRENT STATE OF PLAY WITH EMBASSY OFFICERS ON JUNE 16. EAST SAID LAST WEEK'S NEGOTIATIONS BETWEEN COMPANY REPRESENTATIVES AND GOP OFFICIALS WENT OFF RELATIVELY WELL AND THAT MARCONA TABLED NEW SERIES OF PROPOSALS FOR GOP CONSIDERATION WHICH, INTER ALIA, WOULD TRANSFER NET ASSETS TO NEW GOP COMPANY "HIERROPERU" (INEVITABLY), PROVIDE FOR TECHNICAL ASSISTANCE, SELL TO HIERROPERU MARCONA'S SALES CONTRACTS WITH PRESENT PURCHASERS, AND PROVIDE SHIPPING AT AREA RATES TO GOP WITH MARCONA'S SUPPORT. EAST SAID FUNDAMENTAL FACT IN RELATIVELY FORTHCOMING GOP RESPONSE TO DATE IS BASIC DECISION OF MINES MINISTER FERNANDEZ MALDONADO TO SUPPORT MARCONA'S POSITION, ALTHOUGH EAST ADMITTED THAT THERE ARE STILL SEVERAL LEFTISTS ACTIVE IN THE NEGOTIATIONS ARE SCHEDULED FOR JUNE 26, BUT EAST DOES
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NOT EXPECT FINAL RESOLUTION UNTIL AUGUST-SEPTEMBER.

END SUMMARY.

2. FOLLOWING ARE PRINCIPAL POINTS EAST MADE DURING
DETAILED CONVERSATION:

A) MARCONA'S NEGOTIATION POSITION - MARCONA TABLED A NEW PACKAGE OF PROPOSALS. THESE INCLUDE, AMONG OTHERS:

- 1) GUARANTEE OF SALES CONTRACTS - MARCONA NOTED THAT ITS SALES CONTRACTS RUN THROUGH 1983, BUT THAT ITS PRESENT BUYERS (PRINCIPALLY THE JAPANESE) HAVE ASKED THAT MARCONA GUARANTEE THE QUALITY, QUANTITY, AND SCHEDULE OF DELIVERIES IN ACCORDANCE WITH ITS PRESENT CONTRACTS. (NOTE: EAST EMPHASIZED THAT GOP HAD ORIGINALLY EXPRESSED CONCERN ABOUT SALES CONTRACTS AND THAT MARCONA UNDERSTANDS WITHOUT SOME SUPERVISION FROM MARCONA.)
- 2) MARCONA IS PREPARED TO MAKE AVAILABLE TECHNICAL ASSISTANCE UNTIL ORE BUYERS ACCEPT THE "EFFICIENCY" OF THE NEW ENTITY. T/A WOULD BE NEGOTIATED AND WOULD NOT INCLUDE ACTUAL COMPANY MANAGEMENT.
- 3) MARCONA WOULD BE WILLING TO "SELL" ITS PRESENT SALES CONTRACTS FOR 4 PERCENT OF THEIR TOTAL VALUE CIF THROUGH 1983.
- 4) FOR NEW SALES CONTRACTS, MARCONA WOULD MAKE AVAILABLE ITS SALES ORGANIZATION FOR A 2 PERCENT COMMISSION FOB.
- 5) MARCONA WOULD GUARANTEE, FOR A PERIOD OF TEN YEARS, "AREA FREIGHT RATES" FOR PERUVIAN SHIPPING OF ITS IRON ORE AT RATES SUBSTANTIALLY UNDER THOSE WHICH CPV OR THE GOP COULD NEGOTIATE WITH OTHERS INDEPENDENTLY.
- 6) MARCONA ALSO PRESENTED DOCUMENT TO GOP COMMISSION DETAILING FINANCIAL OPERATIONS OF THE COMPANY AND CALCULATING, ACCORDING TO GOP MINE EVALUATION REGULATIONS, THAT ITS TOTAL NET WORTH IS \$171,662,000 (COMMENT: EAST ADMITTED THAT THIS INITIAL FIGURE IS PROBABLY SOMEWHAT ON THE HIGH SIDE AND THAT MARCONA IS PREPARED TO NEGOTIATE DOWN.)

B) GOP DECISION MAKERS - AS WE UNDERSTAND IT, NEGOTIATIONS AND DECISION MAKING WILL GO ON AT TWO LEVELS THROUGH A NEGOTIATING TEAM THAT HAS BEEN EXPANDED TO 16 MEMBERS, NOMINALLY HEADED BY MINES MINISTER FERNANDEZ MALDONADO, AND A CABINET-LEVEL TEAM THAT WILL MAKE THE FINAL DECISION. THE PRINCIPAL SPOKESMAN OF THE NEGOTIATING

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TEAM, AS IT HAS EMERGED, IS OTONIEL VELASCO, VICE DIRECTOR OF THE NATIONAL PLANNING INSTITUTE (INP), AND THE TEAM INCLUDES SEVERAL MODERATES WHO FAVOR A NEGOTIATED SOLUTION, AS WELL AS SOME RADICALS WHO, EAST ADMITS, DO NOT. EAST VIEWS VELASCO AS BUSINESSLIKE AND INTELLIGENT AND APPEARS TO REGARD HIS PARTICIPATION AS AN ASSET FROM MARCONA'S POINT OF VIEW. WE ARE NOT QUITE AS SANGUINE (SEE LIMA A-124). THE CABINET-LEVEL TEAM IS COMPOSED OF

THE MINISTERS OF MINES, COMMERCE, NAVY AND TRANSPORT, AS WELL AS THE OPERATING CHIEF OF ENAPU (PERUVIAN PORT AUTHORITY) AND CPV (STATE SHIPPING COMPANY). HERE EAST COUNTS THE MINISTERS OF MINES, COMMERCE, AND NAVY, AND THE HEAD OF CPV AS SYMPATHETIC. HE VIEWS THE MINISTER OF TRANSPORT AND THE HEAD OF ENAPU AS ANTAGONISTIC. EAST ALSO COMMENTED THAT GENERAL (R) JUAN BOSSIO WILL BE NAMED TO HEAD HIERROPERU AND THAT HE WILL HAVE A SAY IN THE FINAL DECISION. BOSSIO, WHO UNTIL RECENTLY MIS-MANAGED MINEROPERU, IS A RADICAL AND UNSYMPATHETIC AND, EAST SAYS, IS DISLIKED BY MINES MINISTER FERNANDEZ MALDONADO. ALTHOUGH EAST ADMITTED THAT BOSSIO HAS A "TERRIBLE REPUTATION," HE SEEMED UNCONCERNED BY THIS APPOINTMENT, WHICH HE INDICATED WAS A TACTICAL MOVE BY FERNANDEZ MALDONADO TO NEUTRALIZE BOSSIO. (THIS IS ALL VERY BYZANTINE AND WE DO NOT FULLY UNDERSTAND IT, ALTHOUGH BOSSIO'S PRESENCE MAKES US SOMEWHAT UNEASY.)

C) PELLET PLANT EXPANSION - STAGE 11 - EAST SAID COST HAS NOW RISEN TO \$140 MILLION (ABOUT DOUBLE SINCE 1973) AND THAT MARCONA HEADQUARTERS IS ACTIVELY TALKING TO THE JAPANESE ABOUT WORKING OUT A NEW FINANCING FORMULA. IN FACT, WHEN NEGOTIATIONS RECOMMENCE ON JULY 26, GORDON FURTH WILL BRING SPECIFIC PROPOSALS TO LIMA FOR THE PELLET PLANT EXPANSION FOR GOP CONSIDERATION.

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TO SECSTATE WASHDC 5554

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 4896

D) SALES COMMISSION PROBLEMS - EAST NOW CLAIMS THAT SALES COMMISSION PROBLEMS REPORTED IN REFERENCE C SHOULD NOT STAND IN THE WAY AND THAT HE EXPECTS COMMERCE MINISTER ARIAS GRAZIANI TO ACCEPT FOUR PERCENT COMMISSION ON CURRENT CONTRACTS. HE ALSO EXPECTS OTHER TAX CHARGES ON FREIGHT, ON COMMISSIONS, AND DISALLOWANCE OF BONUSES TO FOREIGN EMPLOYEES TO BE RESOLVED WITH RELATIVE EASE. THE ONLY POSSIBLE STUMBLING BLOCK IS 2.5 PERCENT COMMISSION ON MAIN OFFICE PURCHASES, BUT THIS SHOULD NOT PROVE INSURMOUNTABLE, IF GOP WISHES TO REACH AN ACCORD.

E) PRESS ATTACKS - EAST SAID HE TOLD FERNANDEZ MALDONADO THAT SHOULD PRESS ATTACKS ON THE COMPANY CONTINUE, MARCONA WOULD REFUSE TO NEGOTIATE. HE SAID THAT THE MINISTER INFORMED HIM THEY WOULD NOT AND THAT THE PRESS CAMPAIGN HAS SINCE THEN STOPPED ALMOST COMPLETELY.

3. COMMENT: EAST, WHO HAS CONSISTENTLY BEEN OPTIMISTIC, SEEMED CONVINCED THAT MODERATES HAVE DECIDED THAT HIERROPERU NEEDS MARCONA (AND, BY IMPLICATION, THE JAPANESE SALES CONTRACTS AND FINANCIAL ASSISTANCE), WITHOUT WHICH THE IRON ORE OPERATION WOULD BE A WHITE ELEPHANT.
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INDEED, MARCONA'S OFFER OF SALES ASSISTANCE AND AREA FREIGHT RATES MAKE AN ATTRACTIVE PACKAGE. EAST DOES NOT EXPECT ALL THE DETAILED NEGOTIATIONS TO BE SETTLED UNTIL AUGUST AT THE EARLIEST, GIVEN THE DEGREE OF TERPOR WITHIN THE PERUVIAN BUREAUCRACY, BUT DEFINITELY SEES LIGHT AT THE END OF THE TUNNEL.

4. WE HAVE OTHER INDICATIONS, HOWEVER, THAT THE PERUVIANS MAY NOT YET BE WILLING TO FULLY ACCEPT MARCONA'S CONDITIONS. IN THE FIRST INSTANCE, JOSE NUNEZ DE ARCO, THE VICE MINISTER OF COMMERCE (WHO REPRESENTS COMMERCE ON THE NEGOTIATING TEAM AND WHO IS RETIRING BECAUSE HIS GENERALLY MODERATE VIEWS ON ECONOMIC MATTERS ARE NOT BEING HEHEDED), TOLD EMBASSY OFFICERS ON JUNE 13 THAT THE GOP NEGOTIATING TEAM IS DIVIDED INTO TWO FRACTIOUS CAMPS AND THAT HE HAD BEEN ACCUSED BY RADICAL MEMBERS OF "SELLING OUT" BECAUSE HE PROPOSED A FAVORABLE SOLUTION TO THE BUY-OUT ISSUE. IN ADDITION, THE JAPANESE AMBASSADOR TOLD THE DCM ON JUNE 12 THAT MINES MINISTER FERNANDEZ MALDONADO, TRANSPORT MINISTER MENESES, AND THE LATTER'S DIRECTOR OF OCEAN TRANSPORT ARE CONSIDERING TRAVELING TO JAPAN IN ABOUT TWO WEEKS TO TALK ABOUT MARCONA OPERATION. THE JAPANESE AMBASSADOR SAID MINISTRY OF FOREIGN

AFFAIRS IS NOT INTERESTED IN DEALING BEHIND MARCONA'S BACK AND THAT, IN FACT, HEAD OF JAPAN STEEL WITH WHOM THE PERUVIANS WANT TO TALK WILL BE OUT OF THE COUNTRY. IN SUMMARY, IT NOW LOOKS AS THOUGH THE GOP IS FINALLY BECOMING ORGANIZED TO FOCUS ON THE MARCONA ISSUE AND MAY BE WILLING TO WORK OUT AN ACCEPTABLE ARRANGEMENT. WHETHER THEY DO SO WILL BE A FUNCTION OF MANY FACTORS, THE MAJORITY POLITICAL (SEE LIMA SEPTTEL), AND WHERE THE JAPANESE PERCEIVE THEIR ECONOMIC ADVANTAGE TO BE. THE EMBASSY IS POUCHING A COPY OF MARCONA'S LATEST PROPOSAL.
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